



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
RUSSELL COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

May 6, 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
RUSSELL COUNTY
LARRY BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
MAY 6, 2000

Audit Opinion:

We have issued an unqualified opinion in our independent auditor's report. Our report contains the following comment and recommendation:

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Collateral Of \$379,011 To Protect Deposits

Financial Statements:

For the 1999 tax year the Russell County Sheriff collected a total of \$3,353,989 and distributed the proper amounts to the county, school, and special taxing districts. The financial statement reflects that \$113 is due to the state. The Sheriff's paid commissions totaling \$138,449 to the Sheriff's fee account.

Notes To Financial Statements:

The Russell County Sheriff earned \$3,933 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

At the end of the audit period the Sheriff had unexplained receipts of \$3,342. We recommended these funds be placed in an escrow account for the purpose of refunding any future claims or disposition to the Sheriff's fee account.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Charles M. Smith, Russell County Judge/Executive

Honorable Larry Bennett, Russell County Sheriff

Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the Russell County Sheriff's Settlement - 1999 Taxes as of May 6, 2000. This tax settlement is the responsibility of the Russell County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Russell County Sheriff's taxes charged, credited, and paid as of May 6, 2000, in conformity with the basis of accounting described in the preceding paragraph. Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Collateral Of \$379,011 To Protect Deposits

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

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Honorable Larry Bennett, Russell County Sheriff

Members of the Russell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated September 7, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
September 7, 2000

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

May 6, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 241,724	\$ 548,389	\$ 1,482,816	\$ 535,233
Tangible Personal Property	28,151	69,094	132,496	130,994
Intangible Personal Property				46,695
Fire Protection	2,635			
Franchise Corporation	30,815	75,439	146,504	
Oil Properties	32	73	197	71
Additional Billings	687	1,558	4,213	1,517
Prior Year Franchises	560	1,333	2,685	
Increased Through Erroneous Assessments	17	39	104	18,830
Penalties	2,326	5,258	14,062	5,216
Adjusted to Sheriff's Receipt	32	195	310	(309)
Gross Chargeable to Sheriff	<u>\$ 306,979</u>	<u>\$ 701,378</u>	<u>\$ 1,783,387</u>	<u>\$ 738,247</u>
<u>Credits</u>				
Discounts	\$ 3,876	\$ 8,778	\$ 22,948	\$ 10,721
Exonerations	1,743	3,989	10,200	4,560
Delinquents:				
Real Estate	4,914	11,147	30,142	10,854
Tangible Personal Property	3,947	9,904	18,579	19,356
Intangible Personal Property				344
Total Credits	<u>\$ 14,480</u>	<u>\$ 33,818</u>	<u>\$ 81,869</u>	<u>\$ 45,835</u>
Net Tax Yield	\$ 292,499	\$ 667,560	\$ 1,701,518	\$ 692,412
Less: Commissions *	<u>12,719</u>	<u>27,954</u>	<u>68,061</u>	<u>29,715</u>
Net Taxes Due	\$ 279,780	\$ 639,606	\$ 1,633,457	\$ 662,697
Taxes Paid as of Completion of Fieldwork	279,173	638,446	1,630,511	662,584
Taxes Paid September 8, 2000	<u>607</u>	<u>1,160</u>	<u>2,946</u>	
Due Districts as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113</u>

* See Page 4

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
May 6, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,475,828
4% on	\$	1,868,161

The accompanying notes are an integral part of the financial statement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT

May 6, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 6, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$379,011 of public funds uninsured and unsecured.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT
May 6, 2000
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 1999 through May 6, 2000.

Note 4. Interest Income

The Russell County Sheriff earned \$3,933 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unexplained Receipts Should Be Escrowed

During our audit of the Sheriff's 1999 tax account we found there were unexplained receipts of \$3,243, which have not been claimed. These funds should be deposited in an escrow account for the purpose of any future claims.

COMMENT AND RECOMMENDATION

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
COMMENT AND RECOMMENDATION

May 6, 2000

The Sheriff Should Have Required Depository Institutions To Pledge Additional Collateral Of \$379,011 To Protect Deposits

On December 6, 1999, \$379,011 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

Will have bank raise collateral.

PRIOR YEAR COMMENT AND RECOMMENDATION:

In the prior year other auditors reported that the Sheriff did not require depository institutions to pledge additional securities of \$142,503 as collateral to protect deposits. It was recommended that the Sheriff closely monitor deposits to ensure that pledges of securities were adequate to cover deposits at all times.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Charles M. Smith, Russell County Judge/Executive
Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Russell County Sheriff's Settlement - 1999 Taxes as of May 6, 2000, and have issued our report thereon dated September 7, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Russell County Sheriff's Settlement - 1999 Taxes as of May 6, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Russell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Charles M. Smith, Russell County Judge/Executive
Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 7, 2000

